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FM AMEMBASSY NEW DELHI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 8283
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RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RHEHNSC/NSC WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMCSUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC

UNCLAS NEW DELHI 002120

SENSITIVE
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STATE FOR SCA/INS AND EEB
USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR MDELANEY/CLILIENTFELD/AADLER
TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS
EEB/CIP FSAEED, KDUNNE, AGIBBS

E.O. 12958: N/A

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SUBJECT: New Delhi Weekly Econ Office Highlights for the Week of
October 9-15, 2009

¶1. (U) Below is a compilation of economic highlights from Embassy
New Delhi for the week of October 9-15, 2009, including the
following:

-- No End in Sight for Strengthening Rupee
-- Industrial Production Points to Recovery

No End in Sight for Strengthening Rupee

¶2. (U) The Rupee has appreciated more than six percent against the
dollar since the beginning of the fiscal year on April 1, and is now
at its strongest level since October 1, 2008. The rupee's strength
is due to robust capital inflows and an improvement in the trade
deficit, mainly due to a steeper drop in imports than exports.
Other factors mentioned by analysts include the dollar's weakness
against the euro, absence of intervention by the Reserve Bank of
India (RBI), and selling of dollars by banks to take advantage of
the arbitrage opportunity in offshore markets.

¶3. (U) At a speech at the IMF-World Bank annual meeting in Istanbul
on October 6, RBI Governor Dr. D. Subbarao said that interest rates
in India may have to be tightened ahead of those in advanced
economies due to inflationary pressures in India. An increase in
interest rate differentials between India and the developed
economies could lead to even larger capital inflows, making exchange
rate management difficult for the RBI. The combination of higher
interest rates and increased capital inflows could further
strengthen the rupee against the dollar.

Industrial Production Points to Recovery

¶4. (U) The August index of industrial production (IIP) rose 10.4
percent in August, indicating that industrial recovery is under way.
All three sectors - manufacturing, power, and mining - that make up
the index rose more than 10 percent with manufacturing, which
accounts for 80 percent of the index based on sectors, growing by
10.2 percent. Fourteen of the 17 industries that make up the
manufacturing sector had positive growth in August, led by petroleum
and coal products, textile products, basic chemicals and machinery
and equipment. Only food products, wood and wood products, and

vegetable and fiber textiles declined in August.

¶5. (U) All five use categories - basic goods, capital goods, intermediate goods, consumer durables, and consumer non-durables - also grew in August. Consumer durables led the way, up 22.3 percent, followed by intermediate goods such as cotton yarn, which rose 14.3 percent in August. Analysts credited the growth to increased demand due to the festival season in India and back pay made to government workers for the Sixth Pay Commission, which gave salary increases to government workers, 40 \$tQ^DQa6. (U) Comment: This is the third straight month of strong industrial production growth and higher than what most analysts were expecting. Although it is possible that the increased industrial production is simply restocking of inventory levels, other indicators such as foreign direct investment, car purchases, and corporate earnings point to an economy that is bouncing back from the global financial crisis. End comment.

¶7. (U) Visit New Delhi's Classified Website:
http://diplopedia.state.sgov.gov/index.php?title=Embassy_New_Delhi

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